## UNIVERSITY VENTURE FUND IMPACT INVESTING

28 July 2022

Board of Governors of the Federal Reserve System Attn: Ann E. Misback, Secretary 20th Street and Constitution Avenue, NW, Washington, DC 20551

Subject: Responses to May 2022 Interagency NPR for CRA Reform (Question 13)

Ms. Misback,

The NPR, and specifically Question 13, suggests significant changes to banks' ability to support financial intermediaries such as the University Venture Fund. In particular, the proposed elimination of the "size test" and "purpose test" will eliminate banks' ability to receive CRA credit for lending to or investing in equity and debt venture capital funds that finance small businesses with revenue greater than \$5 million. This change creates significant barriers to entry for financial intermediaries and would reduce the capital that is available for small businesses.

It is our opinion that CRA regulations should continue to allow banks to receive CRA credit for activities that support job creation, retention, and/or improvement by financing (either directly or through an intermediary) small businesses that meet the "size" and "purpose" tests currently set forth by SBIC and CRA guidelines. We also believe banks should continue to document these activities by tracking permanent job creation, retention, and/or improvement for low- or moderate-income (LMI) persons, in LMI geographies, in areas targeted for redevelopment by federal, state, local, or tribal government, or by financing intermediaries that lend to, invest in, or provide technical assistance to start-ups or recently formed small businesses.

Small and emerging financial intermediaries play a critical role in financing recently formed businesses. By nature, these fund managers manage smaller pools of capital, and invest in and support nascent companies whose financial needs better align with the small investment amounts. Larger funds, on the other hand, struggle to invest in small companies because the process becomes increasingly inefficient as assets under management grow. While such growth unlocks larger operating budgets for fund managers, there is disincentive to continue investing such small amounts when responsible for so much capital.

For example, a \$10 million fund can invest \$500 thousand into each of 20 companies. If a \$200 million fund wanted to invest \$500 thousand into nascent companies like a smaller fund, it would end up supporting 400 companies, a burdensome and unlikely scenario. A more likely outcome for such a large fund would be investing \$10 million into 20 companies, thereby overlooking smaller companies with capital needs.

These examples, though oversimplified, demonstrate the need for continued support of small and emerging fund managers and financial intermediaries to drive economic development. Small-fund managers fill the critical need of financing the nascent companies that do not yet



qualify for larger, institutionalized investors, not to mention bank financing.

The University Venture Fund is one such fund. Our initial investments are typically directed into companies generating between \$0 and \$3 million. We invest alongside other small investors to collectively provide the capital these companies need but cannot get from banks or other sources. We support entrepreneurs as they navigate the common obstacles of nascent companies, obstacles that seem outsized relative to the resources available. Our portfolio currently includes 19 companies located across the U.S. In the past year, our companies:

- Generated 208 jobs, net (245 gross)
- Provided recycling services to rural areas where recycling isn't traditionally available
- Connected professional attorneys to low-income persons seeking pro bono services
- Provided educational content and services to prisoners across the U.S.
- Created technology to allow paralyzed persons to drive a virtual car with their thoughts
- Saved lives of persons and families caught in global conflict zones (Syria, Yemen, etc.)

In addition, we have mentored over 150 collegiate students over the life of our current fund. The University Venture Fund is unique in that it "employs" student volunteers who want to gain exposure to and experience in venture capital investing during their university studies. These intern-analysts play a critical role in our day-to-day operations, fulfilling the roles typically filled by post-MBA associates and vice presidents. Upon graduation, these students have a significant advantage over their peers and are placed in advantageous positions to start their careers.

The importance of CRA-qualified capital in supporting these activities should not be understated. In fact, banks' CRA capital has been essential to our accomplishing such outcomes. The alignment between our efforts and banks' goals (i.e., local and regional economic development) yields a support structure for entrepreneurs that is more sustainable than similar intermediaries without CRA-qualified capital. This support structure is unique due to the economic development mindset that we bring to the table. Not only do we assist entrepreneurs to refine their business models and more effectively target their customers, but we also advocate for responsible job creation/improvement/retention that is inclusive of persons of nontraditional or overlooked backgrounds.

Lastly, the support these entrepreneurs need and continue to solicit doesn't conclude at a predetermined revenue threshold. Many companies we support continue to face sizeable obstacles beyond the \$5 million revenue mark. In today's world of companies that generate billions of dollars per year in sales, the companies with single-digit millions of dollars in revenue are still just getting started. They have much to do to build and refine products, create and refine sales processes, de-risk supply chains, and more.

In conclusion, CRA-qualified investments into financial intermediaries that support small business are critical to the economic development of communities around the country. If these investments are further encumbered by lowering the revenue threshold or eliminated altogether by excluding economic development as a CRA qualification, small businesses will bear the



burden as such financing becomes increasingly sparse.

Thank you for considering our feedback. We appreciate the opportunity to share our opinions regarding banks' ability to support organizations like ours.

Sincerely,

Chance Murray

Managing Director, UVF II